



Are we paid to be creative? The effect of compensation gap on creativity in an expatriate context



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ABSTRACT

In developing countries, there is a relatively large compensation gap between locals and expatriates, which incurs a wide range of negative reactions from the former. Referring to the equity theory and reflection theory of pay, we proposed a negative association of local employees' creativity with perceived compensation gap. We adopted a multi-level approach to examine the moderating effects of trust climate directed toward the expatriates on individual-level relationship of compensation gap and creativity. Data were collected from 298 Chinese employees and their supervisors in the service sector. HLM results show that perceived compensation gap was negatively related to employee creativity, more important, we found that climate of trust (cognitive and affective trust) in expatriates can mitigate the negative effect of compensation gap and employee creativity. Research and managerial implications for managers are discussed.

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1. Introduction

In modern business world, organizational competitiveness relies heavily on employees' creativity, i.e., the generation of both novel and useful ideas (Amabile, 1996). Especially in recent years, the fast extension and growth of multinational corporations (MNCs) call for the local subsidiaries to be innovative in approaching the local market (Scott, Gibbons, & Coughlan, 2010). It goes without saying that innovation in the local settings cannot be accomplished without creative contribution from the local employees (Michaelis, Stegmaier, & Sonntag, 2010; Toh & Denisi, 2003). However, the level of innovation in branches of these MNCs, especially those located in developing countries, is not satisfying. Part of the reason is attributed to the diversified personnel background and multi-track policies, exemplified by the two-tier compensation system, which tends to complicate the motivation process in MNCs (Chen, Choi, & Chi, 2002; Leung, Smith, Wang, & Sun, 1996). For example, findings from a stream of studies conducted in MNCs show that compensation gap between expatriate managers and local employees would incur the issue of injustice which impacts the local employees' working behaviors

and attitudes, including job satisfaction, intention to quit, leader-subordinate relationship, and job performance (Chen et al., 2002; Choi & Chen, 2007; Leung et al., 1996; Leung, Wang, & Hon, 2011; Leung, Wang, Zhou, & Chan, 2011; Leung, Zhu, & Ge, 2009). In reviewing these findings, a question arises hereof as whether or not compensation gap, as a consequence of the multi-track policy in MNCs, is associated with the local employees' creativity. However, to our knowledge, none of these prior studies answered this question.

To trace the reason why prior studies did not link up creativity with compensation gap in MNCs, we need to refer to the intrinsic motivation theory of creativity (Amabile, 1996). It is generally agreed in a majority of literature that employees' creativity is positively associated with intrinsic motivation (Amabile, 1998; Oldham & Cummings, 1996). Meanwhile, findings about the effect of external rewards on creativity showed that extrinsic motivation is an insufficient predictor, or even a "killer" of employees' creative behaviors (Amabile, Hennessey, & Grossman, 1986; Kruglanski, Friedman, & Zeevi, 1971). Despite of this belief, the results from a few studies revealed positive effect of reward on creativity (Eisenberger, Armeli, & Pretz, 1998; Eisenberger, Pierce, & Cameron, 1999; Eisenberger & Rhoades, 2001). As the direct link between pay and creativity did not get consistent support, more recent studies start to look at the specific functional conditions of rewards (e.g., Baer, Oldham, & Cummings, 2003).

In this study we refer to the equity theory (Adams, 1965) and reflection theory of pay (Thierry, 2001) to depict the relationship

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between compensation gap and creativity. We learnt from equity theory about the importance of social comparison between the two groups. It is the relative pay level, rather than the absolute pay, that impact the motivation and related behavioral outcomes. Reflection theory suggests that the meaning of pay goes beyond the traditional belief about its materialism function and reflects the images of employees' status, power and value within the organization (Salimäki, Hakonen, & Heneman, 2009). Accordingly, in this study we examined the meaning of pay difference between locals and expatriates and related that to local employees' creative performance. In this sense, we set our study in a multinational context where we can examine the impact of compensation gap between expatriates and local employees, and on the latter's creative performance.

This study contributes to the literature by conceptually and empirically linking compensation difference, creativity and theories of equity and reflection of pay using the climate of trust in an expatriate context. The results of this research also add to a more comprehensive understanding of compensation difference between locals and expatriates as it relates to local employees' creative outcome in the context of hospitality industry.

2. Theory and hypotheses

2.1. Compensation gap and creativity

Compensation gap between the expatriates and the local employees is a result of globalized operation in which the expatriates working in a foreign country are paid at the home country rate. As the local employees are paid with reference to the local (e.g., China) labor market in which the rate is usually relatively lower than the home country (e.g., U.S.) where the expatriates come from, pay difference between the expatriates and the local employees becomes salient (Paik, Parboteeah, & Shim, 2007; Toh & Denisi, 2003). A study of Chen et al. (2002) reports that the income of American expatriate was up to several times of their local Chinese counterparts. As a result, the big compensation gap perceived by local employees may engender their reactive attitudes and behaviors at workplace.

Prior studies reported destructive results of such significant compensation gap among the local employees, including reduced job satisfaction, low organizational commitment, poor performance, increased turnover, and destroyed interpersonal relationships (Choi & Chen, 2007; Leung et al., 1996, 2011a,b; Toh & Denisi, 2003). But to our knowledge, there has been no research revealing the relationship between perceptions of compensation gap and creative outcomes. Considering the important role of local employees in promoting innovation within MNCs, it is worthwhile to examine the impact of local employees' perception of this compensation gap (shortened into "compensation gap" in latter discussion, which refers to the extent to which local employees see the difference as acceptable or satisfying) on their creative performance. We referred the equity theory (Adams, 1965) and the reflection theory of pay (Thierry, 2001) to interpret this direct but underdeveloped relationship.

According to the equity theory (Adams, 1965), the motivation effect of pay partly relies on comparison of the focal person's outcome–input ratio with a referent in the organization. Dissimilarity of the ratio causes the feeling of unfairness and leads to dissatisfaction about the pay. When people find inequity in the pay system, they may choose to repair the imbalanced situation by means of adjusting their input or influence the outcome until the ratio is comparable with that of the referent. Taking this theory into the expatriate work settings, the local employees tend to take their expatriate counterparts as the subject of comparison. In fact, the distinct identity of foreign cultural background makes these

expatriates outstanding social referent for the local employees. The salient pay difference between the expatriate and the local employees easily arouses distributive unfair perception among the local employees (Chen et al., 2002; Leung et al., 1996).

As proposed by the equity theory, since it is difficult to influence the outcome of distribution, individual employees tend to reduce their working efforts in order to achieve a fair ratio between their input and outcome. Compared with routine job behaviors, generating creative outcomes requires more effort from the employees in collecting and learning extra knowledge (Amabile, 1996). Meanwhile, creativity is often risky because of the potential challenges associated with uncertainty and resistance to change in the organizations (Hon, Bloom, & Crant, 2014; Janssen & Van Yperen, 2004). Moreover, creativity means deviation from the present practices, which may lead to loss and failure (Hon, 2013; Lu, Lin, & Leung, 2012). These characters make the practice of creativity highly demanding—it generally requires more efforts, courage and persistence from the employees. However, as argued above, due to relatively lower income compared with the expatriate counterparts, the inequity perceived by the local employees incurs the response of behavioral withdrawal and efforts reduction from the local employees (Paik et al., 2007). When it is not easy to quit from the tasks required in routine job performance, they tend to choose withdrawing from creative performance as a major way of reducing input and in this way achieving comparable input/output ratio with their expatriate counterparts.

Additional explanation for the relationship between compensation gap and creativity is based on the reflection theory of pay (Thierry, 2001). This theory enriched meanings of pay by suggesting that pay reflects not only the economic exchange between the employer and the employees, but also the images of status, relative power, position and value in the organization. Pay also reflects the control one can exert on the working context and coworkers at the workplace (Thierry, 2001). The reflection theory of pay offers us a different perspective to look at the relationship between compensation gap and creativity. The meanings reflected by the pay system impact the employees' social identity and self-determination (Hakonen, Maaniemi, & Hakonen, 2011). In this sense, monetary rewards work as a combined force of extrinsic and intrinsic motivation (Deci & Ryan, 1985). The lower pay of local employees relative to the expatriates signals inferior status of local employees and their expected weaker influence on the organization. In practice, the success of MNCs is often counted on the shoulders of the expatriates (Elenkov & Manev, 2009), and the potential contribution of local employees has been underestimated and overlooked (Toh & Srinivas, 2012). Given the fact that creativity demands additional effort, risk-taking courage, and intrinsic motivation such as self-determination (Amabile, 1996), local employees tend to be discouraged to generate novel work behaviors or to promote any ideas to change the status quo of the organization.

To sum up, based on equity theory and reflection theory, we propose that the relative lower pay of local employees as a result of the compensation gap would lead to reduced effort and discouraged risk-taking of the local employees, which will negatively impact their creative behaviors.

Hypothesis 1. Perceived compensation gap between the expatriate and the local employees is negatively related to the local employees' creativity.

2.2. The moderating effect of trust climate toward expatriates

Despite the well-recognized negative effect of compensation gap (e.g., Chen et al., 2002; Leung et al., 2009) in expatriate context, it may not be easy to remove the gap in a short term because of the

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